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ABSTRACT

This report provides an overview of efforts undertaken by the U.S. General Accounting Office (GAO) in 1990 to review and report on federal program areas its work identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. It reviews the current status of efforts to address these concerns. The six categories of high-risk focus include: (1) providing accountability and cost-effective management of defense programs; (2) ensuring all revenues are collected and accounted for; (3) obtaining an adequate return on multibillion dollar investments in information technology; (4) controlling fraud, waste, and abuse in benefit programs; (5) minimizing loan program losses; and (6) improving management of federal contracts at civilian agencies. New high-risk areas are also discussed, including defense infrastructure, information security, the year 2000 problem in regard to computer software, Supplemental Security Income, and the 2000 decennial census. Also included are a list of key contacts for the newly designated high-risk areas and a list of 1997 High-Risk Series publications. (MDM)

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An Overview

HE 029 967

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GAO **United States**
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

February 1997

The President of the Senate
The Speaker of the House of Representatives

In 1990, the General Accounting Office began a special effort to review and report on the federal program areas its work identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. This effort, which was supported by the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight, brought a much-needed focus on problems that were costing the government billions of dollars.

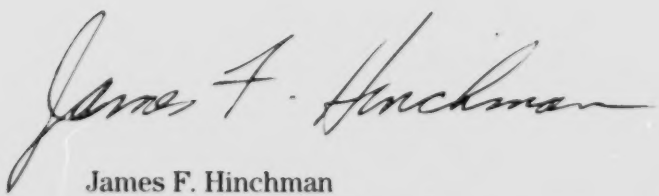
In December 1992, GAO issued a series of reports on the fundamental causes of problems in high-risk areas, and in a second series in February 1995, it reported on the status of efforts to improve those areas. This, GAO's third series of reports, provides the current status of designated high-risk areas.

Overall, legislative and agency actions have resulted in progress toward resolving many previously identified high-risk problems. Such actions have established a solid foundation to help ensure greater progress, but much remains to be done to fully implement the corrective actions needed to remove the high-risk designation from the areas we have identified. Effective and sustained follow-through by agency managers, along with continued

oversight by the Congress, is essential to further headway.

In addition to this overview, the series includes the Quick Reference Guide (GAO/HR-97-2), which provides information on the 25 high-risk areas currently included in GAO's high-risk program. For each area, the guide summarizes the problems and progress, identifies a key GAO contact person, and provides a list of related GAO products. The series also includes 12 separate reports detailing continuing significant issues and resolution actions needed in 19 of the high-risk areas.

Copies of this report series are being sent to the President, the congressional leadership, all other Members of the Congress, the Director of the Office of Management and Budget, and the heads of major departments and agencies.



James F. Hinchman
Acting Comptroller General
of the United States

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Executive Summary

Over the past 7 years, we have called attention to critical government operations that are highly vulnerable to waste, fraud, abuse, and mismanagement. Persistent and long-standing high-risk areas result in the government needlessly losing billions of dollars and missing huge opportunities to achieve its objectives at less cost and with better service delivery. To help improve this situation, we have made hundreds of recommendations to get at the heart of high-risk problem areas, which have at their core a lack of fundamental accountability.

Overall, agencies are taking high-risk problems seriously, trying to correct them, and making progress in many areas. The Congress has also acted to address problems affecting high-risk areas through oversight hearings and specific legislative initiatives, such as the Health Insurance Portability and Accountability Act of 1996 to protect Medicare from exploitation and Title VI of the Federal Agriculture Improvement and Reform Act of 1996 to reduce the financial risk associated with farm lending programs.

Landmark legislation in the 1990s also established broad management reforms, which, if implemented successfully, will help resolve high-risk problems and provide

greater accountability in many government programs and operations, including financial management, information technology, acquisition of goods and services, and debt collection. The administration has embraced these management reforms and has made implementation of them a priority. Among these laws are (1) the expanded Chief Financial Officers (CFO) Act of 1990 to prepare financial statements that can pass the test of an independent audit and provide decisionmakers reliable financial information, (2) the 1993 Government Performance and Results Act to measure performance and focus on results, and (3) the 1995 Paperwork Reduction Act and the 1996 Clinger-Cohen Act to make wiser investments in information technology.

Full and effective implementation of legislative mandates, our suggestions, and corrective measures by agencies, however, has not yet been achieved because the high-risk areas involve long-standing problems that are difficult to correct. As a result, while agencies are making progress, these problems must be more fully resolved before we can remove their high-risk designation. To ensure that this occurs, sustained management attention and congressional oversight are necessary. We

will continue to closely monitor agencies' progress in resolving high-risk areas.

Categories of High-Risk Focus

This report highlights progress agencies have made to improve high-risk areas in six broad categories, covering serious and widespread weaknesses that have been the focus of our program for several years. These categories affect almost all of the government's annual $1.4 trillion revenue collection efforts and hundreds of billions of dollars of annual federal expenditures.

Six Categories of High-Risk Focus

1. ***Providing for Accountability and Cost-effective Management of Defense Programs***
2. ***Ensuring All Revenues Are Collected and Accounted For***
3. ***Obtaining an Adequate Return on Multibillion Dollar Investments in Information Technology***
4. ***Controlling Fraud, Waste, and Abuse in Benefit Programs***
5. ***Minimizing Loan Program Losses***
6. ***Improving Management of Federal Contracts at Civilian Agencies***

In addition to these broad categories, we have identified planning for the 2000 Decennial Census as a high-risk area.

Providing for Accountability and Cost-Effective Management of Defense Programs

The Department of Defense (DOD) has had some success in addressing its inventory management problems, is working to reform its weapon systems acquisition process, and has recognized the need for infrastructure reductions. However, much remains to be done to resolve DOD's five high-risk areas.

First, DOD's lingering financial management problems—among the most severe in government—leave the Department without accurate information with which to manage its vast resources, which in fiscal year 1996 included a budget of over $250 billion and over $1 trillion in assets worldwide. Financial audits have highlighted significant deficiencies in every aspect of DOD's financial management and reporting, resulting in failure of any major DOD component to receive a positive audit opinion. The deficiencies identified prevent DOD managers from obtaining the reliable financial information needed to make sound decisions on alternate uses for both current and future resources. DOD's financial management leaders have recognized the importance of tackling these problems and have many initiatives underway to address widespread financial management problems. Fixing DOD's financial management problems is also

critical to the resolution of the Department's other high-risk areas. See page 33.

Also, because of fundamental control deficiencies in contract and inventory management systems and procedures, DOD is vulnerable to billions of dollars being wasted on excess supplies and millions of dollars in contractor overpayments. Improvements are necessary to maintain appropriate controls over DOD's centrally managed inventories valued at $69.6 billion in fiscal year 1995 and contracts now costing about $110 billion annually. See pages 35 and 36.

In addition, despite DOD's past and current efforts to reform its acquisition system, wasteful practices still add billions of dollars to defense weapon systems acquisition costs, which are about $79 billion annually. DOD continues to (1) generate and support acquisition of new weapon systems that will not satisfy the most critical weapon requirements at minimal cost and (2) commit more procurement funds to programs than can reasonably be expected to be available in future defense budgets. Many new weapon systems cost more and do less than anticipated, and schedules are often delayed. Moreover, the need for some of these costly weapons, particularly since the collapse of

the Soviet Union, is questionable. See page 38.

Finally, over the last 7 to 10 years, DOD has reduced operations and support costs, which will amount to about $146 billion this year. However, billions of dollars are wasted annually on inefficient and unneeded DOD activities. Consequently, this year, we have added a new high-risk area covering DOD's efforts to reduce its infrastructure. DOD has, in recent years, undergone substantial downsizing in force structure. However, commensurate reductions in operations and support costs have not been achieved. Reducing the cost of excess infrastructure activities is critical to maintaining high levels of military capacities. Expenditures on wasteful or inefficient activities divert limited defense funds from pressing defense needs such as the modernization of weapon systems. See page 39.

Ensuring All Revenues Are Collected and Accounted For

In 1995, the Internal Revenue Service (IRS) reported collecting $1.4 trillion from taxpayers, disbursing $122 billion in tax refunds, and managing an estimated accounts receivable inventory of $113 billion in delinquent taxes.

The reliability of such financial information is critical to effectively manage the collection of revenue to fund the government's operations. However, our audits of IRS' financial statements have identified many significant weaknesses in accurately accounting for revenue and accounts receivable, as well as for funds provided to carry out IRS' operations. IRS has made progress in improving payroll processing and accounting for administrative operations and is working on solutions to revenue and accounts receivable accounting problems. However, much remains to be done, and effective management follow-through is essential to achieving fully the goals of the CFO Act. See page 43.

Also, IRS is hampered in efficiently and effectively managing its huge inventory of accounts receivable due to inadequate management information. The root cause here is IRS' antiquated information systems and outdated business processes, which handle over a billion tax returns and related documents annually. See page 45.

IRS is attempting to overhaul its information systems and tax processing operations through its Tax Systems Modernization (TSM) effort. IRS reports that it has already spent or

obligated over $3 billion on TSM. IRS and the Department of the Treasury have taken several steps to address modernization problems, but much more progress is needed to fully resolve serious underlying management and technical weaknesses. See page 49.

Further, IRS' efforts to reduce filing fraud have resulted in some success, especially through more rigid screening in the electronic filing program, but this continues to be a high-risk area for which IRS needs better management information. IRS' goal is to increase electronic filings, which would strengthen its fraud detection capabilities. But to achieve its electronic filing goal, IRS must identify those groups of taxpayers who offer the greatest opportunity for filing electronically and develop strategies focused on eliminating or alleviating impediments that have inhibited those groups from participating in the program. See page 47.

Also, the Customs Service has made progress in addressing major weaknesses in its financial management and internal control systems. However, audits of Customs' financial statements continue to show significant problems in these areas. These problems diminish Customs' ability to

reasonably ensure that (1) duties, taxes, and fees on imports are properly assessed and collected and refunds of such amounts are valid, (2) sensitive data maintained in automated systems are adequately protected from unauthorized access and modification, and (3) core financial systems provide reliable information for managing operations.

We have made numerous recommendations to Customs to address its financial management weaknesses and have assisted in developing corrective actions. It will be important for top management at Customs to provide continuing support to ensure that its planned financial management improvements are properly implemented. See page 51.

Also, the Departments of Justice and Treasury have made many improvements in their asset forfeiture programs over the years. However, significant enhancements to internal controls and property management are still needed in order to effectively reduce the vulnerability to theft and misappropriation of seized property, including tons of illegal drugs and millions of dollars of cash and real property. See page 53.

Obtaining an Adequate Return on Multibillion Dollar Investments in Information Technology

In the past 6 years, federal agencies have spent about $145 billion on information systems, which are now integral to nearly every aspect of the federal government's operations. Yet, despite years of experience in developing and acquiring systems, agencies across government continue to have chronic problems harnessing the full potential of information technology to improve performance, cut costs, and/or enhance responsiveness to the public.

In addition to IRS' TSM, the information systems modernization efforts of the following three agencies in particular are at high risk of being late, running over cost, and falling short of promised benefits:

- The Federal Aviation Administration's (FAA) $34-billion air traffic control modernization has historically experienced cost overruns, schedule delays, and performance shortfalls. While FAA has had success on a recent small, well defined effort to replace one aging system, the underlying causes of its past problems in modernizing larger, more complex air traffic control (ATC) systems remain and must be addressed for the modernization to succeed. We recently identified and made recommendations to correct several of these root causes,

including (1) strengthening project cost estimating and accounting practices and (2) defining and enforcing an ATC-wide systems architecture, and we have work under way to identify other improvements that could help to resolve the modernization's long-standing problems. See page 55.

- DOD continues to spend billions of dollars to streamline operations and implement standard information systems under the umbrella of its Corporate Information Management (CIM) initiative. Until its new process for controlling system investments is implemented, however, the Department cannot realize the savings goals expected from this initiative. See page 57.

- The success of the National Weather Service's (NWS) $4.5 billion modernization effort hinges on how quickly the Service addresses problems with the existing system's operational effectiveness and efficient maintenance and on how well it develops and deploys the remaining system. NWS has acknowledged that a technical blueprint is needed and is currently developing one. See page 59.

Also, a newly designated high-risk area involves information systems security weaknesses across government. These weaknesses pose high risk of unauthorized access and disclosure or malicious use of sensitive data. Many federal operations that rely on computer networks are attractive targets for individuals or organizations with malicious intentions. Examples include law enforcement, import entry processing, and various financial transactions. Most notable, Defense systems may have experienced as many as 250,000 attacks from hackers during 1995 alone, with about 64 percent of those being successful and most going undetected.

Since June 1993, we have issued over 30 reports describing serious information security weaknesses at major federal agencies. In September 1996, we reported that, during the previous 2 years, serious information security control weaknesses had been reported for 10 of the 15 largest federal agencies. We have made dozens of recommendations to individual agencies for improvement and they have acted on many of them. See page 61.

We are also adding to our high-risk program this year another serious governmentwide issue, the "Year 2000 Problem." This problem

poses the high risk that computer systems throughout government will fail to run or malfunction because computer equipment and software were not designed to accommodate the change of date at the new millennium.

For example, IRS' tax systems could be unable to process returns, which in turn could jeopardize the collection of revenue and the entire tax processing system. Federal systems used to track student education loans could produce erroneous information on their status, such as indicating that an unpaid loan has been satisfied. Or the Social Security Administration's disability insurance process could experience major disruptions because the interface with various state systems fails, thereby causing delays and interruptions in disability payments to citizens. See page 62.

Controlling Fraud, Waste, and Abuse in Benefit Programs

The Congress and the President have been seeking to introduce changes to Medicare to help control program costs, which were $197 billion in fiscal year 1996. At the same time, they are concerned that the Medicare program loses significant amounts due to persistent fraudulent and wasteful claims and abusive billings. The Congress has

passed legislation to protect Medicare from exploitation by adding funding to bolster program safeguard efforts and making the penalties for Medicare fraud more severe. Effective implementation of this legislation and other agency actions are key to mitigating many of the inherent vulnerabilities that make Medicare, the nation's second largest social program, a perpetually attractive target for exploitation. See page 65.

The Supplemental Security Income (SSI) program is another new high-risk area. SSI, which provided about $22 billion in federal benefits to recipients between January 1, 1996, and October 31, 1996, is at high risk of overpayments, which have grown to over $1 billion annually. One root cause of these overpayments is the difficulty the Social Security Administration has in corroborating financial eligibility information that program beneficiaries self report and that affects their benefit levels. Determining whether a claimant's impairment qualifies an individual for disability benefits can often be difficult as well, especially in cases involving applicants with mental impairments and other hard-to-diagnose conditions. See page 68.

Minimizing Loan Program Losses

The federal government is accountable for effectively managing hundreds of billions of dollars in direct loans and loan guarantees for a variety of programs involving, for example, farmers, students, and home buyers.

In 1995, the federal government reported disbursing $19 billion in new direct loans and guaranteeing $123 billion in non-federal lending. As of September 30, 1995, total federal credit assistance outstanding was reported to be over $941 billion, consisting of (1) $204 billion in loans receivables held by federal agencies, including $160 billion in direct loans and $44 billion in defaulted guaranteed loans that are now receivables of the federal government, and (2) $737 billion in loans guaranteed by the federal government.

Since our high-risk program began 7 years ago, we have called attention to difficulties major lending agencies have experienced in managing federal credit programs and the resulting exposure to large losses.

- The Department of Education has achieved some results in implementing legislative initiatives by the Congress to address many of the underlying problems with the student

financial aid programs' structure and management. In fiscal year 1995, the federal government paid out over $2.5 billion to make good its guarantee on defaulted student loans—an amount that represents an improvement over the last several years. The Department has taken many administrative actions to correct problems and improve program controls, but it must overcome management and oversight problems that have contributed to abuses by some participating schools. See page 73.

- The Department of Housing and Urban Development (HUD) is responsible for managing more than $400 billion in insured loans; $435 billion in outstanding securities; and, in fiscal year 1995, over $31.8 billion in discretionary budget outlays. However, effectively carrying out these responsibilities is hampered by HUD's weak internal controls, inadequate information and financial management systems, and an ineffective organization structure. HUD has undertaken some improvement efforts to correct these problems through such means as implementing a new management planning and control program. However, HUD's improvement efforts are far from fruition. See page 76.

- Since our last high-risk report series, the Congress has enacted legislation to make fundamental changes in the farm loan programs' loan-making, loan-servicing, and property management policies. The Department of Agriculture is in the process of implementing the new legislative mandates and other administrative reforms to resolve farm loan program risks. The impact of these actions on the $17 billion farm loan portfolio's financial condition will not be known for some time. See page 72.

  The Debt Collection Improvement Act of 1996 also was enacted to expand and strengthen agencies' debt collection practices and authorities. Implementing the act's provisions can improve agencies' lending program performance.

Improving Management of Federal Contracts at Civilian Agencies

With government downsizing, civilian agencies will continue to rely heavily on contractors to operate programs. While this approach can help to achieve program goals with a reduced workforce, it can also result in increased vulnerability to risks, such as schedule slippages, cost growth, and contractor overpayments, as we have seen with the weak contract management

practices of some of the government's largest contracting agencies.

- Most of the Department of Energy's (DOE) $17.5 billion in annual contract obligations is for its management and operating contracts. DOE has made headway to overcome its history of weak contractor management through a major contract reform effort that has included developing an extensive array of policies and procedures. Although the Department recently adopted a policy favoring competition in the award of these contracts, in actual practice most contracts continue to be made noncompetitively. See page 79.

- The National Aeronautics and Space Administration (NASA) has made considerable progress in better managing and overseeing contracts, for which it spends about $13 billion a year. The improvements have included establishing a process for collecting better information for managing contractor performance and placing greater emphasis on contract cost control and contractor performance. Our most recent work, however, identified additional problems in contract management and opportunities for improving procurement oversight. See page 81.

- For the past several years, the Environmental Protection Agency (EPA) has focused attention on strengthening its management and oversight of Superfund contractors. Nonetheless, EPA remains vulnerable to contractor overpayments. At the same time, the magnitude of the nation's hazardous waste problem, estimated to cost hundreds of billions of dollars, calls for the efficient use of available funds to protect public health and the environment. See page 82.

Planning for the 2000 Decennial Census

A new high-risk area involves the need for agreement between the administration and the Congress on an approach that will both minimize risk of an unsatisfactory 2000 Decennial Census and keep the cost of doing it within reasonable bounds. The longer the delay in securing agreement over design and funding, the more difficult it will be to execute an effective census, and the more likely it will be that the government will have spent billions of dollars and still have demonstrably inaccurate results.

The country can ill afford an unsatisfactory census at the turn of the century, especially if it comes at a substantially higher cost than previous censuses. The census results are

critical to apportioning seats in the House of Representatives; they are also used to allocate billions of dollars in federal funding for numerous programs and to guide the plans for decisions of government, business, education, and health institutions in the multibillion dollar investments they make. See page 84.

Shifting the Focus to Accountability and Managing for Results

As countless studies by GAO have long noted and this high-risk series of reports demonstrates, federal agencies often fail to appropriately manage their finances, identify clearly what they intend to accomplish, or do the job effectively with a minimum of waste. After decades of seeing high-risk problems and management weaknesses recur in agency after agency, the Congress moved to address this situation governmentwide through broad management reforms, including the following:

- The Chief Financial Officers Act of 1990, as expanded in 1994, began requiring annual audited financial statements for all major government entities, starting with fiscal year 1996.
- Under the Government Performance and Results Act of 1993, the focus of federal

agencies turns away from such traditional concerns as staffing and activity levels and toward a single overriding issue: results.

- The Paperwork Reduction Act of 1995 and the Clinger-Cohen Act of 1996 require, among other things, that agencies set goals, measure performance, and report on progress in improving the efficiency and effectiveness of operations through the use of information technology.

- The Federal Acquisition Streamlining Act of 1994 and sections of the Clinger-Cohen Act have provided agencies with tools for streamlining and simplifying their processes for acquiring goods and services.

The Office of Management and Budget (OMB) has emphasized requirements called for by this legislative foundation. For example, OMB has not granted any agencies waivers in meeting the CFO Act's audited financial statement requirements and has accelerated aspects of GPRA's implementation. Agencies are now implementing these new laws, with some positive results already.

Through legislation such as this, the Congress has provided an excellent framework for monitoring agencies' progress

in and holding managers accountable for identifying and resolving high-risk problems. Also, GAO has long supported annual congressional hearings that focus on agencies' accountability for correcting high-risk problems and implementing broad management reforms.

These issues are discussed in more detail beginning on page 87.

Resolving the High-Risk Areas: Current Status of Improvement Efforts

The creation of our high-risk program in 1990 was preceded by more than a decade of seemingly endless accounts of control breakdowns and program failures. In 1982, the Congress passed the Federal Managers' Financial Integrity Act, which required federal managers to evaluate their internal control and accounting systems and to correct problems. Since then, the largest federal agencies have identified thousands of internal control and accounting systems weaknesses and reported progress in resolving them.

Over the past 7 years, a substantial part of our audit efforts have identified areas that place the federal government at substantial risk of loss from programs that are ineffectively managed and poorly controlled. We have also monitored agencies' efforts to overcome high-risk areas through administrative measures and actions by the Congress.

Currently, our high-risk program focuses on six broad categories that encompass high-risk areas involving billions of dollars in taxpayers' money.

Six Categories of High-Risk Focus

Providing for Accountability and Cost-effective Management of Defense Programs

Ensuring All Revenues Are Collected and Accounted For

Obtaining an Adequate Return on Multibillion Dollar Investments in Information Technology

Controlling Fraud, Waste, and Abuse in Benefit Programs

Minimizing Loan Program Losses

Improving Management of Federal Contracts at Civilian Agencies

Separate from these categories, another high-risk area involves avoiding an expensive and flawed census in 2000.

Agencies have made progress in designing corrective actions and are in different stages

of implementing them. The Congress has helped as well through its oversight process and by legislation to address several specific high-risk problems and provide broad management reforms.

While improvements have been made in a number of areas, high-risk problems must be more fully resolved before we can remove their high-risk designation.

Additionally, as of February 1997, we are designating five new areas as high risk.

New High-Risk Areas
February 1997

Defense Infrastructure
Information Security
The Year 2000 Problem
Supplemental Security Income
The 2000 Decennial Census

The following sections discuss the current status of agencies' efforts to resolve the 20 high-risk areas identified in our 1995 report series and introduce the 5 newly identified areas. Concerted effort to continue to reduce these significant risks will be required, and we will continue to focus on all 25 of these areas.

Providing for Accountability and Cost-Effective Management of Defense Programs

DOD is responsible for over $1 trillion in assets worldwide and 3 million military and civilian personnel. With a budget of over $250 billion in fiscal year 1996, DOD is accountable for about half of the government's discretionary spending. However, the lack of useful and reliable financial information and weaknesses in fundamental management systems and practices seriously impair DOD's accountability for its vast resources.

DOD is also faced with transforming its Cold War operating and support structure in much the same way it has been working to transform its military force structure. Making this transition is a complex, difficult challenge that will affect hundreds of thousands of civilian and military personnel. If DOD does not address this challenge now, however, pressing needs will go unmet while

scarce defense resources will be wasted or used inefficiently.

High-Risk Defense Management Problems

Financial Management
Contract Management
Inventory Management
Weapon Systems Acquisition
Defense Infrastructure (added in 1997)

Financial Management

While many improvement efforts are under way, DOD does not yet have adequate financial management processes in place to produce the information it needs for making decisions affecting its operations and accountability. No military service or other major DOD component has been able to withstand the scrutiny of an independent financial statement audit. This situation is one of the worst in the federal sector and is the product of many years of neglect.

Weaknesses permeate critical DOD financial management areas and include the following problems:

- the lack of an overall integrated financial management system structure,
- no reliable means of accumulating accurate cost information,
- continuing problems in accurately accounting for billions of dollars in disbursements,
- breakdowns in rudimentary required financial control procedures,
- the critical need to upgrade its financial management workforce competencies, and
- antiquated bureaucratic business practices that underscore the need for reengineering business practices.

DOD's financial management leaders have recognized the importance of tackling these problems, have expressed a commitment to financial management reform, and have many initiatives underway to address long-standing financial management weaknesses. However, DOD faces fundamental challenges in critical areas if its envisioned financial management reforms are to realize meaningful, sustained improvements.

As part of our high-risk series, we are issuing a separate report on **Defense Financial Management** problems, progress, and needed improvements (GAO/HR-97-3).

Contract Management

As DOD seeks to streamline its contracting and acquisition processes—including contract administration and audit—to adjust to reduced staffing levels, new business process techniques will be key to accomplishing effective and efficient oversight in the future.

To maintain appropriate controls over contract expenditures, DOD will need to do the following:

- Improve and simplify its contract payment system, which is essential to achieving effective control over DOD's payment process. Otherwise, DOD continues to risk overpaying contractors millions of dollars. DOD is aware of the seriousness of its payment problems and is taking steps to address them.
- Further strengthen its oversight of contractor cost-estimating systems, which are critical to ensuring sound price proposals and reducing the risk that the

government will pay excessive prices. Sound cost estimating systems also permit less government oversight and management attention. While DOD has improved its oversight of contractors' cost-estimating systems, poor cost-estimating systems remain an area of concern at some contractor locations.

- Strengthen the administration of DOD's Voluntary Disclosure Program, including improving coordination between DOD and the Department of Justice. DOD's Voluntary Disclosure Program is intended to encourage defense contractors to voluntarily disclose potential civil or criminal fraud to the government. Our work has shown that contractor participation in the program has been relatively small and the dollar recoveries modest.

Defense Contract Management problems are further discussed in a separate high-risk series report (GAO-HR-97-4).

Inventory Management

Because DOD's culture believed it was better to overbuy items than to manage with just the amount of stock needed, about half of its current inventory of spare parts, clothing, medical supplies, and other secondary inventory items does not need to be on hand

to support war reserves or current operating requirements.

Since our 1995 high-risk report, DOD has had some success in addressing its inventory management problems and is in the midst of changing its inventory management culture. Also, with reduced force levels and implementation of some of our recommendations, DOD has reduced its centrally managed inventory by about $23 billion, from about $93 billion in September 1989 to about $70 billion in September 1995. DOD has implemented certain commercial practices, but only in a very limited manner. DOD has made little progress in developing the management tools needed to help solve its long-term inventory management problems. It has not achieved the desired benefits from the Defense Business Operations Fund, and the Corporate Information Management initiative has not produced the economies and efficiencies anticipated.

Consequently, it has become increasingly difficult for inventory managers to manage DOD's multibillion dollar inventory supply systems efficiently and effectively. In the short term, DOD needs to emphasize the efficient operation of its existing inventory

systems and make greater use of proven commercial practices. In the long-term, DOD must establish goals, objectives, and milestones for changing its culture and adopting new management tools and practices.

Additional information on these matters is presented in a separate high-risk series report on **Defense Inventory Management** (GAO/HR-97-5).

Weapon Systems Acquisition

Even though DOD spends about $79 billion annually to research, develop, and acquire weapon systems, it has a history of establishing questionable requirements for weapon systems; projecting unrealistic cost, schedule, and performance estimates; and beginning production before adequate testing has been completed. DOD's leadership has emphasized a commitment to reform its weapon systems acquisition process and become a smarter buyer by pursuing a number of positive initiatives to reinvent and improve the cost-effectiveness of its acquisition processes. In addition, the Congress has passed a series of legislative reforms for the weapon systems acquisition process.

The ultimate effectiveness of DOD's current initiatives to reduce the costs and improve the outcomes of its weapon systems acquisition processes cannot yet be fully assessed because they are in various stages of implementation. But the fundamental reforms needed to correct weapon systems acquisition problems, such as successfully completing testing before beginning production, have not yet been formulated, much less instituted.

Progress and remaining problems in **Defense Weapon Systems Acquisition** are discussed in a separate report being issued as part of this high-risk series (GAO/HR-97-6).

Defense Infrastructure

This year, we have added to our high-risk areas Defense's efforts to reduce its infrastructure. For fiscal year 1997, DOD estimates that about $146 billion, or two-thirds, of its budget will be for operations and support activities. These activities, which DOD generally refers to as its support infrastructure, include maintaining installation facilities, providing nonunit training to the force, providing health care to military personnel and their families,

repairing mission-essential equipment, and buying and managing spare part inventories.

DOD recognizes the need for infrastructure reductions. DOD's laboratory infrastructure is estimated to have an excess capacity of 35 percent. Its overhead costs for transportation services are 2 to 3 times the basic cost of transportation. In addition, funds are being spent to operate and maintain aging and underutilized buildings, roads, and other infrastructure that will likely be declared excess by DOD in the near future.

Defense must use resources for the highest priority operational and investment needs rather than maintaining unneeded property, facilities, and overhead. DOD has programs to identify potential infrastructure reductions in many areas. However, breaking down cultural resistance to change, overcoming service parochialism, and setting forth a clear framework for a reduced Defense infrastructure are key to avoiding waste and inefficiency.

To do this, the Secretary of Defense and the military service Secretaries need to give greater structure to their efforts by developing an overall strategic plan. The

plan needs to establish time frames and identify organizations and personnel responsible for accomplishing fiscal and operational goals. In developing the plan, DOD should consider using a variety of means to achieve reductions, including such things as consolidations, privatization, outsourcing, reengineering, and interservice agreements. It should also consider the need and timing for future base realignment and closure actions.

Additional information about **Defense Infrastructure** problems can be found in a separate high-risk series report (GAO/HR-97-7).

Ensuring All Revenues Are Collected and Accounted For

To ensure its ability to efficiently and fairly administer the nation's tax system, IRS has articulated a business vision for the future. This vision calls for reducing the volume of paper returns, providing better customer service, and improving compliance by modernizing its operations.

Since developing its business vision in 1992, IRS has made some progress in modernizing its operations; however, the gap between IRS' current level of performance and that proposed in its vision is great. Specifically, the efficient administration of the nation's

tax system is undermined by problems in four areas of IRS' operations: financial management, accounts receivable, filing fraud, and tax systems modernization.

These issues are highlighted below and discussed further in a separate high-risk series report, **IRS Management** (GAO/HR-97-8).

Also, the Customs Service has made progress in resolving its high-risk problems and the Departments of Justice and the Treasury have improved the management of asset forfeiture programs. Nonetheless, Customs continues to have significant financial management weaknesses and additional improvements are necessary to adequately control asset forfeitures.

High-Risk Revenue Collection Problems

IRS Financial Management
IRS Receivables
Filing Fraud
Tax Systems Modernization
Customs Service Financial Management
Asset Forfeiture Programs

IRS Financial Management

IRS needs to make substantial improvements in its accounting and financial reporting to comply fully with the CFO Act's requirements. Our audits under the act have described IRS' difficulties in (1) properly accounting for its reported $1.4 trillion in tax revenues, in total and by reported type of tax, (2) reliably determining the amount of accounts receivable owed for unpaid taxes, (3) regularly reconciling its Fund Balance with Treasury accounts, and (4) either routinely providing support for receipt of the goods and services it purchases or, where supported, accurately recording the purchased item in the proper period.

IRS has made some progress in addressing these issues. This is particularly notable in IRS' administrative accounting operations, which track its over $7 billion appropriation to fund agency activities. For example, IRS recently reported that it has identified substantially all of the reconciling items for its Fund Balance with Treasury accounts. It has also successfully transferred its payroll processing to the Department of Agriculture's National Finance Center and has begun designing short and long-term strategies to fix the problems that contribute to its nonpayroll expenses being

unsupported or reported in the wrong period.

Further, in the revenue accounting area, IRS has designed an interim approach to capture the detailed support for revenue and accounts receivable until longer term solutions can be identified and implemented. The issues with IRS' revenue accounting operations are complex, and the remedies needed are multifaceted and encompass organizational, managerial, technological, and procedural improvements. IRS' revenue accounting problems are especially affected and complicated by antiquated automated data processing systems that must be substantially modified to meet financial reporting requirements ushered in by the CFO Act.

Follow-through by IRS is essential to ensure that its financial management improvement plans are effectively carried out. Solving these problems is essential to providing reliable financial information and ensuring taxpayers that their federal tax dollars are properly accounted for in accordance with federal accounting standards. The accuracy of IRS' financial statements is also key to both IRS and the Congress for (1) ensuring adequate accountability for IRS programs,

(2) assessing the impact of tax policies, and (3) measuring IRS' performance and cost effectiveness in carrying out its numerous tax enforcement, customer service, and collection activities.

IRS Receivables

In fiscal year 1996, IRS reported it had collected almost $30 billion in delinquent taxes—more than in any previous year. Also, the Congress has recently taken actions that could help to reduce the amount of delinquent taxes in the future by requiring more electronic deposits of employment taxes, expanding voluntary withholding, and authorizing IRS to test the use of private debt collectors.

However, fundamental problems continue to hamper IRS' efforts to efficiently and effectively manage and collect its reported $216 billion inventory of tax debts.

- The outdated equipment and processes used to match tax returns and related information documents can require several years to identify potential delinquencies before initiating collection actions.
- Information systems problems prevent IRS from effectively measuring the results of

improvement efforts, determining the best collection actions to take for specific taxpayers, identifying the most effective collection tools and techniques, and devising programs needed to prevent delinquencies from occurring.

IRS has undertaken many initiatives to deal with its accounts receivable problems—such as (1) correcting errors in its tax receivable masterfile, (2) developing more information with which it can better define the inventory of tax debts, characteristics of delinquent taxpayers, and appropriate collection techniques, (3) attempting to speed up aspects of the collection process, and (4) automating many of the processes carried out by collection employees in field offices.

These efforts appear to have had some impact on collections and the tax debt inventory, but many are long-term in nature and demonstrable results may not be available for several years. Overall, IRS needs a comprehensive collection strategy that involves setting priorities, modernizing outdated equipment and processes, and establishing goals, timetables, and systems to measure progress.

Filing Fraud

Through the early 1990s, the number of fraudulent returns that IRS detected spiraled upward, reaching a peak in 1994 of over 75,000 returns involving $160 million. After being urged to take immediate action by us, the Congress, and a Treasury task force, IRS introduced new controls and expanded existing controls in an attempt to reduce its exposure to filing fraud.

Those controls were focused on (1) deterring the filing of fraudulent returns by more rigidly screening applicants to the electronic filing program and verifying electronic returns at the point of receipt and (2) identifying questionable returns after they have been filed by automating fraud research and detection techniques and more aggressively verifying social security numbers.

IRS' efforts produced some positive results. For example, in 1995, IRS (1) identified problems with over 4 million social security numbers on returns filed electronically and (2) detected invalid social security numbers on paper returns that resulted in over $800 million in reduced refunds or additional taxes. Unfortunately, IRS identified many more problems than it was able to deal with

and ended up releasing about 2 million refunds without resolving the problems.

The number of fraudulent returns identified by IRS has declined since 1994. However, IRS does not have sufficient information to determine whether the decline is the result of fewer staff assigned to the program, changes in the program's operating and reporting procedures, or a general decline in the incidence of fraud.

To control filing fraud, it is critically important for IRS to (1) optimize controls, such as upfront filters that are intended to deter the filing of fraudulent returns, and (2) maximize the effectiveness of available staff. Modernization is the key to achieving these objectives, and electronic filing is the cornerstone of that modernization. IRS' business vision calls for increasing the number of electronic returns to 80 million by 2001. However, recent filing trends indicate that IRS will fall far short of that goal. To achieve its goal, IRS must identify those groups of taxpayers who offer the greatest opportunity for filing electronically and develop strategies focused on eliminating or alleviating impediments that have inhibited those groups from participating in the program.

Tax Systems Modernization

Over the last decade, IRS has been attempting to overhaul its timeworn, paper-intensive approach to tax return processing. In 1995, we identified serious management and technical weaknesses in the modernization program which jeopardize its successful completion,[1] recommended many actions to fix the problems, and added IRS' modernization to our high risk list. Since then, IRS and Treasury have together taken several steps to implement our recommendations, but much remains to be done. At stake is the over $3 billion that IRS has spent or obligated on this modernization since 1986, as well as any additional funds that IRS plans to spend on modernization.

In May 1996, Treasury reported to the House and Senate Appropriations Committees on steps under way and planned to exert greater management oversight over IRS' modernization efforts.[2] For example, it established a Modernization Management Board as the primary review and decision-making body for modernization and for policy and strategic direction. In

[1]Tax Systems Modernization: Management and Technical Weaknesses Must Be Corrected If Modernization Is to Succeed (GAO/AIMD-95-156, July 26, 1995).

[2]Report to House and Senate Appropriations Committees: Progress Report on IRS's Management and Implementation of Tax Systems Modernization, Department of the Treasury, May 6, 1996.

addition, Treasury scaled back the overall size of the modernization by approximately $2 billion and is working with IRS to obtain additional contractor help to accomplish the modernization. Pursuant to congressional direction, we assessed IRS' actions to correct its management and technical weaknesses, as delineated in Treasury's report on tax systems modernization. We reported in June and September 1996 that IRS had initiated many activities to improve its modernization efforts, but had not yet fully implemented any of our recommendations.

To help oversee IRS' modernization, the Congress is taking oversight actions as well. For example, it directed IRS to (1) submit a schedule for transferring a majority of its modernization development and deployment to contractors and (2) establish a schedule for implementing GAO's recommendations. It also directed the Secretary of the Treasury to (1) provide quarterly reports on the status of IRS' corrective actions and modernization spending and (2) submit a technical architecture for the modernization that has been approved by Treasury's Modernization Management Board.

IRS has continued to take steps to address our recommendations and respond to

congressional direction. For example, IRS created an investment review board to select, control, and evaluate its information technology investments. Thus far, the board has reevaluated and terminated selected major modernization development projects, such as the Document Processing System. IRS also provided a November 26, 1996, report to the Congress that set forth IRS' schedule for shifting modernization development and deployment to contractors. While we recognize IRS and Treasury actions to address these problems, we remain concerned. Much remains to be done to fully implement essential improvements. IRS needs to continue to make concerted, sustained efforts to fully implement our recommendations and respond effectively to the requirements outlined by the Congress. It will take both management commitment and technical discipline for IRS to do this effectively.

Customs Service Financial Management

Customs has taken several actions to address significant weaknesses in its financial management and internal control systems. These actions include, for example, statistically sampling compliance of commercial importations through ports of entry to better focus enforcement efforts and

to project and report lost duties, taxes, and fees due to noncompliance.

However, Customs still has not fully corrected significant problems in these areas, which continue to be identified during audits of Customs' financial statements under the CFO Act. These problems diminish Customs' ability to reasonably ensure that (1) duties, taxes, and fees on imports are properly assessed and collected and refunds of such amounts are valid, (2) sensitive data maintained in automated systems are adequately protected from unauthorized access and modification, and (3) core financial systems provide reliable information for managing operations.

We have made numerous recommendations to Customs to address its financial management weaknesses and have assisted in developing corrective actions. It will be important for top management at Customs to provide continuing support to ensure that its planned financial management improvements are properly implemented.

Customs Service Financial Management is further discussed in the Quick Reference Guide (GAO/HR-97-2).

Asset Forfeiture Programs

Over the years, the Departments of Justice and Treasury have made many improvements to their asset forfeiture programs, which had inventories valued at about $2 billion in 1995. However, significant enhancements to internal controls and property management are still needed in order to effectively reduce the vulnerability to theft and misappropriation of seized property, including tons of illegal drugs and millions of dollars of cash and real property. In addition, Justice and Treasury should aggressively pursue options for efficiency gains through consolidation of their programs for managing and disposing of seized assets.

The Quick Reference Guide (GAO/HR-97-2) provides additional information on the risks associated with **Asset Forfeiture Programs**.

Obtaining an Adequate Return on Multibillion Dollar Investments in Information Technology

During the past 6 years, agencies have spent over $145 billion building up their information technology infrastructure—all too often with disappointing results. Many system development efforts suffer from multimillion dollar cost overruns, schedule slippages measured in years, and/or marginal benefits in terms of improving mission

performance, cutting costs, and enhancing responsiveness to the public. A case in point is the IRS tax systems modernization previously discussed.

The federal government's poor return on information technology investments also has left the Congress and executive branch severely handicapped by the lack of reliable data for measuring the costs and results of agency operations and making well-informed decisions. Recognizing the urgent need for improvement, the 104th Congress passed landmark reforms in information technology management. The 1995 Paperwork Reduction Act and the 1996 Clinger-Cohen Act require agencies to implement a framework of modern technology management.

These legislative initiatives are discussed later in this overview and in a separate report on **Information Management and Technology**, issued as part of this series (GAO/HR-97-9). That report also discusses high-risk information system modernization efforts and governmentwide information security and technology issues, which are highlighted in the following discussion.

High-Risk Information Technology Initiatives

Tax Systems Modernization
Air Traffic Control Modernization
Defense's Corporate Information Management Initiative
National Weather Service Modernization
Information Security (added in 1997)
The Year 2000 Problem (added in 1997)

Air Traffic Control Modernization

Over the past 15 years, the Federal Aviation Administration's (FAA) ambitious air traffic control modernization, which is expected to cost $34 billion through the year 2003, has experienced cost overruns, schedule delays, and performance shortfalls. These problems led FAA in 1994 to restructure the $7.6 billion former centerpiece of the modernization—the Advanced Automation System. The acquisition of that system failed because FAA did not recognize the technical complexity of the effort, realistically estimate the resources required, adequately oversee its contractors' activities, or effectively control system requirements.[3]

[3]Advanced Automation System: Implications of Problems and Recent Changes (GAO/T-RCED-94-188, April 13, 1994).

FAA has made some progress since then. However, much remains to be accomplished. For example, systems comprising the modernization have long proceeded without a complete systems architecture—or blueprint—to guide them, leading to unnecessarily higher spending to buy, integrate, and maintain hardware and software.[4] We have recommended that FAA develop and enforce a complete systems architecture, and implement a management structure for doing so that is similar to the Chief Information Officer provisions of the Clinger-Cohen Act of 1996.

Also, FAA's poor cost estimating processes and cost accounting practices leave it at risk of making ill-informed decisions on critical multimillion, even billion, dollar air traffic control systems.[5] We recommended that FAA institutionalize defined processes for estimating the costs of projects and develop and implement a managerial cost accounting capability.

[4]Air Traffic Control: Complete and Enforced Architecture Needed for FAA Systems Modernization (GAO/AIMD-97-30, February 3, 1997).

[5]Air Traffic Control: Improved Cost Information Needed to Make Billion Dollar Modernization Investment Decisions (GAO/AIMD-97-20, January 22, 1997).

Additionally, FAA's organizational culture, which does not reflect a strong enough commitment to mission focus, accountability, coordination, and adaptability, has contributed to its modernization difficulties.[6] We recommended that FAA develop a comprehensive strategy for addressing this issue.

Defense's Corporate Information Management Initiative

Defense started the Corporate Information Management (CIM) initiative in 1989 with the expectation of saving billions of dollars by streamlining operations and implementing standard information systems supporting such important business areas as supply distribution, materiel management, personnel, finance, and transportation. However, 8 years after beginning CIM, and after spending a reported $20 billion, Defense's savings goal has not been met because the Department has not yet implemented sound management practices.

We have made numerous recommendations for improving the Department's management of CIM, such as (1) better linking system modernization projects to business process

[6]Aviation Acquisition: A Comprehensive Strategy is Needed for Cultural Change at FAA (GAO/RCED-96-159, August 22, 1996).

improvement efforts, (2) establishing plans, performance measures, and clearly defined roles and responsibilities for implementation, and (3) improving controls over information technology investments.[7] But Defense has yet to successfully implement these recommendations.

Not surprisingly, the results of Defense's major technology investments have been meager and some investments are likely to result in a negative return on investment. For example, after spending over $700 million, Defense has abandoned its system modernization strategy for materiel management. For depot maintenance, Defense expects to spend over $1 billion to develop a standard system that by its own estimates will achieve less than 2.3 percent in reduced operational costs over a 10-year period.

The Department estimates that it will spend more than an additional $11 billion on system modernization projects between now and 2000. As part of its Clinger-Cohen Act implementation efforts, the Department is establishing a framework to use its planning,

[7]See, for example, Defense Management: Stronger Support Needed for Corporate Information Management Initiative to Succeed (GAO/AIMD/NSIAD-94-101, April 12, 1994).

programming, and budgeting system to better manage this investment.

While this is a step in the right direction, these corrective actions are just the beginning. This investment remains at risk until Defense makes well-informed business decisions based on an accurate picture of the costs of technology investments and their related benefits and an appreciation for how they fit into the Department's long- and short-term goals.

National Weather Service Modernization

Although the development and deployment of the observing systems associated with the National Weather Service's (NWS) modernization, which has been underway for 15 years at a cost of about $4.5 billion, are nearing completion, unresolved issues still remain. These issues concern the observing systems' operational effectiveness and efficient maintenance, as well as the development and deployment of remaining modernization component systems.

For example, the new radars are not always up and running when severe weather is threatening and the ground-based sensors fall short of performance and user expectations, particularly when the weather

is active.[8] Further, the centerpiece of the modernization—the forecaster workstations that will integrate observing systems' data and support forecaster decision-making—is far from providing all the promised capabilities and has been delayed and become more expensive because of design problems and management shortcomings. In 1996, we made several recommendations that, if implemented, will strengthen NWS' ability to acquire these workstations.[9]

As we reported in our 1995 high-risk series, the modernization and evolution of this major systems initiative has long begged for a comprehensive systems architecture to guide the effort. NWS has acknowledged that a technical blueprint is needed and is currently developing one. However, NWS will continue to incur higher systems development and maintenance costs and experience reduced performance until the systems architecture is developed and enforced.

[8]See, for example, Weather Forecasting: Radar Availability Requirements Not Being Met (GAO/AIMD-95-132, May 31, 1995) and Weather Forecasting: Unmet Needs and Unknown Costs Warrant Reassessment of Observing System Plans (GAO/AIMD-95-81, April 21, 1995).

[9]Weather Forecasting: Recommendations to Address New Weather Processing Systems Development Risks (GAO/AIMD-96-74, May 13, 1996).

Information Security

Information security is a newly designated high-risk area. Malicious attacks on computer systems are an increasing threat to our national welfare. The federal government's system interconnectivity and linkage to the Internet, combined with poor security management, is putting billions of dollars worth of assets at risk of loss and vast amounts of sensitive data at risk of unauthorized disclosure. Increasing reliance on networked systems and electronic records has elevated concerns about the possibility of serious disruption to critical federal operations, such as law enforcement, import entry processing, various financial transactions, payroll, defense operational plans, electronic benefit payments, and electronically submitted Medicare claims.

Information security problems are widespread. In May 1996, we reported that the Department of Defense's systems may have experienced as many as 250,000 attacks by hackers during fiscal year 1995, about 64 percent of the attacks were successful at gaining access, and only a small percentage of the attacks were detected.[10] Also, in September 1996, we reported that, during the previous 2 years, serious information

[10]Information Security: Computer Attacks at Department of Defense Pose Increasing Risks (GAO/AIMD-96-84, May 22, 1996).

security control weaknesses had been reported for 10 of the 15 largest federal agencies.[11]

We have repeatedly made dozens of recommendations to agencies to improve information security and some agencies have acted to eliminate specific control weaknesses. However, stronger central leadership is also necessary by OMB, which has an important role in promoting awareness of information security problems and monitoring agency information security practices.

The Year 2000 Problem

At 12:01 on New Year's morning of the year 2000, many computer systems could either fail to run or malfunction, thereby producing inaccurate results, because computer equipment and software were not designed to accommodate the change of date to a new millennium. Simply put, the systems will not know whether it is the year 2000 or 1900, for example, since they are designed to operate with the year designated as only two digits, in this case "00." We are adding this problem as a new high-risk area because, unless it is resolved in time, widespread operational and

[11]Information Security: Opportunities for Improved OMB Oversight of Agency Practices (GAO/AIMD-96-110, September 24, 1996).

financial impacts could affect federal, state, and local governments, foreign governments, and private sector organizations worldwide.

For example, IRS' tax systems could be unable to process returns, which in turn could jeopardize the collection of revenue and the entire tax processing system. Federal systems used to track student education loans could produce erroneous information on them, such as indicating that an unpaid loan had been satisfied. Or the Social Security Administration's disability insurance process could experience major disruptions because the interface with various state systems fails, thereby causing delays and interruptions in disability payments to citizens.

While this issue will reach a crescendo at the turn of the century, date-related problems have been manifesting themselves for some years, and more problems are beginning to show up as the new century approaches. With every federal agency at risk of system failures and the year 2000 fast approaching, federal agencies must immediately assess their Year 2000 risk exposure, and plan and budget for achieving Year 2000 compliance for all of their mission-critical systems. Correcting this problem in federal agencies

will involve extensive, resource-intensive efforts due to factors such as the large scale of their systems and the numerous dependencies and interactions with systems of both private sector organizations and state agencies. We are working with the Congress and the executive branch to assess progress in resolving the Year 2000 problem.

Controlling Fraud, Waste, and Abuse in Benefit Programs

A broad segment of the nation's citizens—including the elderly, blind, and disabled—benefit from government programs such as Medicare and Supplemental Security Income (SSI). Unfortunately, these programs experience billions of dollars in losses annually because of fraudulent claims and payments to those who are ineligible. With greater control, these losses could be lessened, thereby reducing already enormous program costs.

High-Risk Benefit Programs

Medicare
Supplemental Security Income (added in 1997)

Medicare

The continuing need to control claims fraud and abuse in the Medicare program, one of the largest entitlements in the federal budget, is heightened by two factors. First, although growth in Medicare costs, which were $197 billion in fiscal year 1996, has moderated somewhat during the last 2 years, many believe even this lower growth rate cannot be sustained. Second, the Medicare trust fund that pays for hospital and other institutional services is expected to be depleted within the next 5 years.

No one can determine with precision how much Medicare loses each year to fraudulent and abusive claims, but losses could be from $6 billion to as much as $20 billion in fiscal year 1996. Reducing unnecessary or

inappropriate Medicare payments would result in large savings and help dampen the growth in Medicare costs.

The Health Care Financing Administration (HCFA), which runs the Medicare program, has begun to acquire a new claims processing system, the Medicare Transaction System (MTS), to provide, among other things, better protection from fraud and abuse. In the past, we have reported on risks associated with this project, including a plan to implement the system in a single stage, rather than incrementally; difficulty in defining requirements; inadequate investment analysis; and significant schedule problems. HCFA has responded to these concerns by changing its single-stage approach to one under which the system will be implemented incrementally, and is working to resolve other reported problems. We plan to monitor these efforts.

HCFA's interim processing environment includes consolidation of existing systems and processing sites. While this is essential, it adds another element of complexity and risk to Medicare claims processing. The success of this overall improvement initiative will depend upon close management attention to the interim

transition period and addressing reported problems with MTS requirements definition, scheduling, and cost.

Also, since our first series of high-risk reports, HCFA has made some regulatory and administrative changes aimed at curbing fraudulent and unnecessary payments. However, in recent years, sizeable cuts in the budget for program safeguards, where most of the funding for the fight against abusive billing is centered, have diminished efforts to thwart improper billing practices. In addition, Medicare's fast-growing managed care program suffers from excessive payments and weak oversight of Medicare health maintenance organizations (HMOS).

The government has made important strides to protect Medicare from exploitation. Recent legislation—the Health Insurance Portability and Accountability Act of 1996—will add funding to bolster program safeguard efforts. The legislation also makes more severe the penalties for Medicare fraud and enhances HCFA's efforts to oversee Medicare HMOS.

In other actions, the Department of Health and Human Services Inspector General and other federal and state agencies are fighting

Medicare fraud in five states in an effort called Operation Restore Trust. After the first year of operation, the effort yielded more than $40 million in recoveries of payments for claims that were not allowed under Medicare rules.

Medicare high-risk issues are discussed in more detail in a separate report issued as part of this series (GAO/HR-97-10).

Supplemental Security Income

The SSI program, which is operated by the Social Security Administration (SSA) and pays cash benefits to the low-income aged, blind, and disabled, has grown in size and complexity since its inception in 1974. During the first 10 months of 1996, about 6.6 million SSI beneficiaries received about $22 billion in federal benefits.

This year, we have included the SSI program as a high-risk area because overpayments have grown to over $1 billion per year, which is about 5 percent of total benefit payments. Also, criticisms have been raised regarding SSA's ability to effectively manage SSI workloads and internal control weaknesses that leave the program susceptible to fraud, waste, and abuse.

Our reports have highlighted several long-standing SSI program problem areas. These involve (1) determining initial and continuing financial eligibility for beneficiaries, (2) determining disability eligibility and performing continuing disability reviews, and (3) inadequate return-to-work assistance for recipients who may be assimilated back into the workforce.

For example, in August 1996, we reported that about 3,000 current and former prisoners in 13 county and local jail systems had been erroneously paid $5 million in SSI benefits, primarily because SSA lacked timely and complete information. Also, the subjective nature of certain disability criteria limits SSA's ability to ensure reasonable consistency in administering the program.

To address SSI program problems, SSA has initiated a major redesign of the disability claims and appeals process, which will be implemented over the next several years. Additionally, the Congress recently passed legislation to tighten eligibility criteria for children and immigrants, remove substance abusers from the SSI rolls, and strengthen existing laws aimed at preventing SSI payments to individuals in correctional institutions. The legislation also requires SSA

to conduct more reviews of SSI recipients to ensure that they remain eligible. It is too early to determine how these changes will affect the SSI program's vulnerability to inappropriate expenditures.

The magnitude of the SSI program and its demonstrated vulnerability to fraud, waste, abuse, and mismanagement call for decisive management action to address long-standing problems. Redesign of the disability claims process must remain an agency priority, and SSA must also establish effective program policy, management accountability, and internal controls to protect taxpayers' dollars and assure timely and accurate decisions for SSI claimants.

Additional information on the **Supplemental Security Income Program** problems and improvements can be found in the Quick Reference Guide (GAO/HR-97-2).

Minimizing Loan Program Losses

The federal government is responsible for collecting billions of dollars from lending programs. At the end of fiscal year 1995, the federal government had a reported $204 billion in loan receivables, including at least $38 billion in delinquencies, and an additional $737 billion in loan guarantees.

This portfolio represents a wide variety of credit programs involving housing, farming, education, small business, and other activities.

While the nature of these programs results in some expected losses, agencies are required to mitigate them through effective credit management and prudent debt collection procedures. But, historically, GAO and others have reported that agencies have not always properly managed their lending programs.

To help in this area, the 104th Congress passed the Debt Collection Improvement Act of 1996 to expand and strengthen federal agency debt collection practices and authorities. While this important new legislation can provide a much needed new impetus to improve lending program performance, it will take time to implement, and additional attention by agency management and actions by the Congress are necessary as well.

High-Risk Loan Programs

Farm Loan Programs
Student Financial Aid Programs
HUD

Farm Loan Programs

In February 1995, we noted that some progress had been made in addressing two of the causes of the U.S. Department of Agriculture's (USDA) farm loan programs' problems. We reported that addressing the remaining problems would require strengthening weak loan and property management policies and further clarification of the agency's role by the Congress.

Since then, the Congress enacted Title VI of the Federal Agriculture Improvement and Reform Act of 1996, which made fundamental changes in the programs' loan-making, loan-servicing, and property management policies. For example, the changes would prohibit delinquent

borrowers from obtaining additional direct farm operating loans and limit the number of times delinquent borrowers can receive debt forgiveness.

If implemented properly, this legislation should significantly reduce the financial risk associated with the farm lending programs, and combined with USDA's actions to improve compliance with program standards, should reduce the farm lending programs' vulnerability to loss. However, USDA is still in the process of implementing the mandated reforms and their impact on the loan portfolio's financial condition will not be known for some time.

Additional information on problems and improvements involving **Farm Loan Programs** can be found in the Quick Reference Guide (GAO/HR-97-2).

Student Financial Aid Programs

We previously reported that while federal student aid programs have succeeded in giving students access to money for postsecondary education, the Department of Education has been less successful at protecting the financial interests of the U.S. taxpayers. We also expressed concern that Education's long-standing management

problems could hamper its implementation and administration of the Ford Direct Loan Program.

In our previous high-risk reports, we discussed legislative initiatives by the Congress to address many of the underlying problems with the student financial aid programs' structure and management. These reports also discussed numerous administrative actions taken by Education to correct the problems and improve program controls.

The Department has generally been responsive to recommendations for improvements and some results have been achieved. For example, Federal Family Education Loan Program default costs declined slightly, from $2.7 billion in fiscal year 1992 to $2.5 billion in fiscal year 1995. In January 1997, the Department announced that default costs continued to decline through fiscal year 1996. Also, collections on defaulted loans increased from $1 billion in fiscal year 1992 to $2 billion in fiscal year 1995.

Nonetheless, the financial risk to taxpayers from student financial aid program vulnerabilities remains substantial. For

example, inadequate Department oversight has contributed to abuses on the part of some schools participating in federal student aid programs. These abuses included instances in which schools received Pell grant funds for students who never applied for the grants or never enrolled in or attended the schools. In another instance, a chain of proprietary schools falsified student records and misrepresented the quality of its educational programs in order to increase its revenues from students receiving Pell grants.

The student financial aid programs' procedural and structural problems remain. Some of these arose from the statutory design of the programs and will remain unless the design is changed through congressional actions. Others can be mitigated through more effective management by the Department. The Department has taken corrective actions in responding to many of our recommendations and those made by others. However, overseeing the student aid programs' complex and cumbersome structure and processes presents a continuing management challenge to the Department.

Additional information on Education's **Student Financial Aid** issues can be found

in a separate report being issued as part of this series (GAO/HR-97-11).

Department of Housing and Urban Development

One of the nation's largest financial institutions, HUD is responsible for managing more than $400 billion in insured loans, $485 billion in outstanding securities, and about $180 billion in prior years' budget authority for which it has future financial commitments. Because of these responsibilities and the large discretionary budget outlays for HUD's programs, which were about $31.8 billion in fiscal year 1995, it is imperative that the deficiencies hampering HUD's leadership in effectively managing the agency be resolved.

HUD's management deficiencies involve (1) weak internal controls, (2) inadequate information and financial management systems, (3) an ineffective organizational structure, and (4) an insufficient mix of staff with the proper skills. These problems are not new—we reported them in 1995 and they were a major factor contributing to the incidents of fraud, waste, abuse, and mismanagement reported in the late 1980s. Fundamental control weaknesses also contributed to the HUD Inspector General's inability to give an opinion on the

Department's fiscal year 1995 financial statements.

HUD has made some progress in overhauling its operations to correct these problem areas. For example, HUD has (1) implemented a new management planning and control program intended to identify and rank the major risks in each program and devise strategies to abate those risks, (2) implemented portions of new systems, (3) eliminated the regional office structure and transferred direct authority for staff and resources to the assistant secretaries, and (4) stepped up staff training. Also, HUD has continued efforts to reinvent and reengineer its current wide array of programs.

However, these efforts are far from reaching fruition and long-standing, fundamental problems remain. HUD's programs will remain high-risk until the agency completes more of its planned corrective actions and until the administration and the Congress reach closure on a restructuring that focuses HUD's mission and consolidates, reengineers, and/or reduces HUD's programs. What is needed is for the administration and the Congress to agree on the future direction of federal housing and community development policy and put in place the organizational

and program delivery structures that are best suited to carry out that policy—a process that will involve inherent tradeoffs in the needs of those seeking HUD's assistance and with other demands on the total federal budget.

Additional information on the **Department of Housing and Urban Development** improvement efforts can be found in a separate report being issued as part of this series (GAO/HR-97-12).

Improving Management of Federal Contracts at Civilian Agencies

Civilian agencies rely on the private sector as a means to carry out their programs through contracts involving goods and services costing tens of billions of dollars a year. While this approach can be used to reduce the workforce, it is critical that the government gets what it pays for under these contracts and that the contractors' work is done at reasonable cost. But this is not always the case, due to problems with the oversight and control of contractor operations.

High-Risk Contracting Areas

Department of Energy
NASA
Superfund

Department of Energy

Through a major contract reform effort, DOE has made headway to overcome its history of weak contractor management. As the federal government's largest civilian contracting agency, in fiscal year 1995, DOE spent about $17.5 billion to, among other things, maintain its weapons complex, fund its national laboratories, and clean up its legacy of environmental contamination.

We designated DOE's contracting as a high-risk area in 1990 because its extensive reliance on contracting and its history of inadequate oversight of contractors failed to protect the government from fraud, waste, and abuse. Since then we have issued a series of reports and testimonies that have identified some of the costly effects of DOE's

contracting practices, contributed to the Congress' budget deliberations, and provided an impetus for DOE to reform its contracting.

In 1994, a DOE contract reform team made sweeping recommendations aimed at the Department's weak contract practices. In response, DOE has made progress in developing an extensive array of policies and procedures, such as publishing a new regulation adopting a standard of full and open competition for the award of its management and operating contracts. DOE's proposed contract reforms are unprecedented in scope and provide a comprehensive plan to address DOE's past contracting problems, but competition is not yet the practice.

Implementing the reforms will require a period of years as current contracts are either competitively awarded or noncompetitively renewed with reform provisions incorporated into the contracts. Continued high-level monitoring and oversight by DOE will be needed so that DOE does not lose its momentum and priority in implementing contract reform.

Additional information on the **Department of Energy Contract Management** problems and improvement initiatives can be found in a separate report being issued as part of this series (GAO/HR-97-13).

NASA

NASA has made considerable progress in improving its contract and procurement operations which in recent years have totalled about $13 billion a year, about 90 percent of NASA's annual budget. For example, NASA has established a process for collecting better information for managing contractor performance, placed greater emphasis on contract cost control and contractor performance, and improved its use of contract audit services.

Efforts such as these have achieved results in a number of areas, and NASA has demonstrated that it can take timely action once a potential problem has surfaced. For instance, NASA lowered the value of contract changes for which prices had not yet been negotiated from $6.6 billion in December 1991 to less than $500 million in September 1996. Also, the number of unresolved audits by the Defense Contract Audit Agency was reduced to 13 in June 1996 from 92 in 1994.

As one of the largest civilian contracting agencies, NASA will inevitably experience periodic problems in procurement activity, as shown by our recent work that identified additional contract management problems and opportunities to improve procurement oversight. For instance, in July 1996, we reported on problems in controlling costs in the International Space Station Program, which accounts for over 10 percent of NASA's annual procurement funding.

While NASA's efforts are encouraging, the agency must be able to identify contract management problems early so they can be evaluated, monitored, and corrected before they become systemic. NASA's approach to periodically assessing its management of procurement functions could benefit from additional agencywide guidance to help ensure more consistent and thorough coverage of the procurement cycle.

Additional information on NASA **Contract Management** is in the Quick Reference Guide (GAO/HR-97-2).

Superfund

Cleaning up the nation's hazardous waste problems has proved to be far more complicated and costly than anticipated

when the Superfund program was started at the Environmental Protection Agency (EPA) in 1980. Recent estimates show that cleaning them up could amount to over $300 billion in federal costs and many billions more in private expenditures.

While about half of the Superfund program's budget annually goes to contractors, EPA has had long-standing problems in controlling contractors' charges. We have repeatedly reported that EPA has not overseen its cost-reimbursable contracts as necessary to prevent contractors from overcharging the government. EPA has focused attention on strengthening its management of Superfund contracts for the past several years, continued to exercise oversight, such as conducting reviews of its regions' performance in this area, and made other improvements.

Nonetheless, Superfund contracting problems persist. EPA's regions are still too dependent upon contractors' own cost proposals to establish the price of cost-reimbursable work, and EPA continues to pay its cleanup contractors a high percentage of total contract costs to cover administrative expenses rather than ensuring that the maximum amount of available

monies is going toward the actual cleanup work. Also, little progress has been made in improving the timeliness of audits to verify the accuracy of billions of dollars in Superfund contract charges. The backlog has remained steady at about 500 unfulfilled requests for audits.

Consequently, the agency remains vulnerable to overpaying its contractors and not achieving the maximum cleanup work with its limited resources. EPA needs to better estimate the costs of contractors' work, use the estimates to negotiate reasonable costs, provide contractors with appropriate incentives to hold down their administrative expenses, and increase the timeliness of contract audits.

Additional information on EPA's **Superfund Program Management** improvement initiatives and remaining problems is provided in a separate report issued as part of this high-risk series (GAO/HR-97-14).

Planning for the 2000 Decennial Census

Another newly designated high-risk area involves the risk to the nation of an unsatisfactory or costly census in 2000. Public cooperation is key to the decennial census, but over the years, voluntary

cooperation has eroded. By 1990, the most expensive census in history produced results that were less accurate than those of the preceding census.

In anticipation of the need to deal with an even larger nonresponse workload than in 1990, the Census Bureau has designed statistical sampling and estimation procedures that should be more accurate and cost-effective than visiting every nonresponding household. But the Bureau has so far failed to demonstrate convincingly to the Congress exactly what effects these procedures would have, and the Congress has concerns over the proposed approach. As a result, the Congress, which under the Constitution and court decisions has the authority to determine the manner in which the census will be taken, could choose to preclude the Bureau from moving forward with its sampling plan.

The administration has done little to plan for the possibility that greater amounts of funding than now anticipated may be necessary to cover added personnel, facilities, and equipment costs if sampling and estimation are not used. Careful advance planning and higher priority is necessary to avoid the risk of a very expensive and

seriously flawed census in 2000. Given the dependence of many decisions affecting governments, businesses, and citizens on the results of the census, the country can ill-afford an unsatisfactory census at the turn of the century, especially if it comes at a substantially higher cost than previous censuses.

The problems that could impede effectively planning for the **2000 Decennial Census** are discussed further in the Quick Reference Guide (GAO/HR-97-2).

Using Legislative Foundation to Monitor High-Risk Areas and Effectively Operate Programs

Resolving specific high-risk problems and implementing broader management reforms will require a concerted effort by agency managers. In this regard, the Congress has held oversight hearings and established the legislative framework necessary to achieve better financial, information, and acquisition management and measure the results of program operations. This framework will help agencies identify and monitor high-risk areas and operate programs more effectively and will assist the Congress in overseeing agencies' efforts to achieve these results.

- The expanded Chief Financial Officers (CFO) Act of 1990 provides the framework for identifying and correcting financial management weaknesses and reliably reporting on the results of financial operations.

- The Government Performance and Results Act (GPRA) of 1993 emphasizes managing for results and pinpointing opportunities for improved performance and increased accountability.

- The Paperwork Reduction Act of 1995 and the Clinger-Cohen Act of 1996 (1) explicitly focus on the application of information resources in supporting agency missions and

improving agency performance and (2) set forth requirements for improving the efficiency and effectiveness of operations and the delivery of services to the public through the effective use of information technology.

- The Federal Acquisition Streamlining Act (FASA) of 1994 and sections of the Clinger-Cohen Act have provided agencies the tools for streamlining and simplifying their processes for acquiring goods and services.

Improving Financial Information

Timely, reliable, useful, and consistent financial information is central to better managing government programs, providing accountability, and addressing high-risk problems. As a number of high-risk areas show, federal financial management suffers from decades of neglect and failed attempts to improve financial management and modernize outdated financial systems. As a result, financial information has not been reliable enough to use in federal decision-making or to provide the requisite public accountability. Good information on the full costs of federal operations is frequently absent or extremely difficult to reconstruct, and complete, useful financial reporting is not yet in place.

The landmark CFO Act spelled out a long overdue and ambitious agenda to help resolve these types of financial management deficiencies. The act established a CFO structure in 24 major agencies and OMB to provide the necessary leadership and focus. To help instill greater accountability and fix pervasive and costly control breakdowns, financial statements were required to be prepared and audited, beginning with those for fiscal year 1991, for revolving and trust funds and commercial activities. For 10 agencies, audited financial statements were required as a part of a pilot program to test this concept for an agency's entire operations. Moreover, the CFO Act set expectations for

- the deployment of modern systems to replace existing antiquated, often manual, processes;
- the development of better performance and cost measures; and
- the design of results-oriented reports on the government's financial condition and operating performance by integrating budget, accounting, and program information.

Important and steady progress is being made under the act to bring about sweeping

reforms and rectify the devastating legacy from inattention to financial management. Moreover, the regular preparation of financial statements and independent audit opinions required by the 1990 act are bringing greater clarity and understanding to the scope and depth of problems and needed solutions.

The success of these efforts formed the basis for congressional action in 1994 to pass the Government Management Reform Act, which expanded to all 24 CFO Act agencies the requirement for the preparation and audit of financial statements for their entire operations, beginning with those for fiscal year 1996. Together, these agencies account for virtually the entire federal budget. This essential expansion of the CFO Act's requirements provides a greater impetus for accelerated governmentwide implementation of financial management reform.

Also, the 1994 expansion to the CFO Act requires the preparation and audit of consolidated governmentwide financial statements, beginning with those for fiscal year 1997. For the first time, the American public will have an annual report card on the results of current operations and the

financial condition of its national government. This, in conjunction with the 24 CFO Act agencies' financial statements, will set the foundation for the federal government to have the kind of financial reporting already required by (1) the securities laws for the private sector, partly in response to the stock market crash of 1929 and (2) the Single Audit Act for state and local governments, driven in part by financial crises such as that experienced by New York City in the early 1970s.

In addition, the Federal Financial Management Improvement Act of 1996 requires agencies to comply with federal accounting standards, federal financial systems requirements, and the U.S. government's standard general ledger. This legislation also requires (1) auditors performing financial audits under the CFO Act to report whether agencies' financial management systems comply with these requirements and (2) agency heads to establish remediation plans if an agency's financial management systems do not comply.

The requirements of these laws underscore the importance to improved federal financial management of efforts by the Federal

Accounting Standards Advisory Board (FASAB) to recommend federal accounting standards and the Joint Financial Management Improvement Program (JFMIP) to develop uniform financial systems requirements. FASAB and JFMIP are joint activities of the Secretary of the Treasury, the Director of OMB, and the Comptroller General to foster better financial management governmentwide.

Since passage of the CFO Act, we and the Inspector General (IG) community have been laying the groundwork by performing financial statement audits of major Departments and agencies throughout government. We have worked in tandem with agency CFOs and IGs, OMB, and Treasury over several years to be a catalyst for the preparation and audit of agencywide financial statements across government. To successfully meet the CFO Act's requirements, it will be essential for the federal financial management and audit communities to give priority to meeting the act's time frame for preparing audited financial statements.

As auditor for the governmentwide financial statements, we plan to ensure in-depth audit coverage of (1) the four agencies (the

Departments of the Treasury, Defense, and Health and Human Services and the Social Security Administration) which are likely to have the greatest impact on the governmentwide financial statements and (2) the remaining 20 CFO Act agencies and other federal entities that will be included in the consolidated statements.

Making CFO Act reforms a reality in the federal government remains a challenge and a great deal more perseverance will be required to sustain the current momentum and successfully overcome decades of serious neglect in fundamental finance management operations and reporting methods. But fully and effectively implementing the CFO Act is a very important effort because it is key to better accountability, implementing broader management reforms, and supporting the goals of GPRA. CFO Act audited financial statements will interpret, analyze, and provide the nation's leaders, agency managers, and the public at large with a wealth of relevant information on the government's true financial status.

Managing for Results

Traditionally, federal agencies have used either the amount of money directed toward

their programs, the level of staff deployed, or even the number of tasks completed as some of the measures of their performance. But at a time when the value of many federal programs is undergoing intense public scrutiny, an agency that reports only these measures has not answered the defining question of whether these programs have produced real results.

Under GPRA, every major federal agency must now ask itself basic questions: What is our mission? What are our goals and how will we achieve them? How can we measure our performance? How will we use that information to make improvements?

GPRA requires agencies to set goals, measure performance, and report on their accomplishments.

- No later than September 30, 1997, executive agencies are to issue to the Congress, OMB, and the public strategic plans covering a period of at least 5 years. These plans are to be updated every 3 years.

- Beginning with fiscal year 1999, executive agencies are to develop annual performance

plans that link the strategic goals with daily activities. These plans are to be developed as part of the President's budget.

- Executive agencies are to develop annual performance reports and submit them to the President and appropriate congressional committees. The first reports will cover fiscal year 1999.

This will not be an easy transition, nor will it be quick. And for some agencies, GPRA will be difficult to apply. The challenges they face in establishing outcome-oriented goals and measures and managing on the basis of them were experienced by agencies participating in a pilot program authorized by the act. But GPRA has the potential for adding greatly to government performance—a particularly vital goal at a time when resources are limited and public demand is high.

To help the Congress and federal managers put GPRA into effect, we have identified key steps that agencies need to take toward its implementation, along with a set of practices that can help make that implementation a success.[1] We learned of these practices from organizations that have successfully taken

[1]Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

initiatives similar to the ones required by the act. The key steps and practices drawn from the organizations we studied provide a useful framework for federal agencies working to implement GPRA.

Managing Information Technology Better

High-risk system development problems are common across government and have been for many years. A broad solution is needed to help agencies prevent these problems and maximize the benefits of technology for improving performance and reducing costs. Similarly, there is a need to strengthen federal agencies' ability to effectively address emerging technology issues and problems on a governmentwide basis.

To improve this situation, we have worked closely with the Congress since our 1995 high-risk report to fundamentally revamp and modernize federal information management practices. Our study of leading public and private sector organizations showed how they applied an integrated set of management practices to create the information technology infrastructure they needed to dramatically improve their performance and achieve mission goals.[2]

[2]Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology—Learning from Leading Organizations (GAO/AIMD-94-115, May 1994).

These practices provide federal agencies with essential lessons in how to overcome the root causes of their chronic information management problems.

The 104th Congress used these lessons to create the first significant reform in information technology management in over a decade: the 1995 Paperwork Reduction Act and the Clinger-Cohen Act of 1996. These laws require agencies to implement a framework of modern technology management—one that is based on practices followed by leading public and private sector organizations that have successfully used technology to dramatically improve performance and meet strategic goals.

These laws emphasize involving senior executives in information management decisions, establishing senior-level Chief Information Officers, tightening controls over technology spending, redesigning inefficient work processes, and using performance measures to assess technology's contribution to achieving mission results for the American people.

These management practices provide a proven, practical means of addressing the federal government's information problems,

maximizing benefits from technology spending, and controlling the risks of system development efforts. The challenge now is for agencies to apply this framework to their own technology efforts, particularly those at high risk of failure.

Effectively implementing these reforms will require agencies to put a strong Chief Information Officer leadership structure in place and to institutionalize processes to select, control, and evaluate technology projects. Oversight by the Congress will be important to monitor progress by agencies and OMB in implementing these practices and promoting effective governmentwide technology investment reforms.

Streamlining Procurement

In recent years, the Congress has become increasingly concerned that the acquisition system used by federal agencies has been wasteful, adding billions to the cost of obtaining goods and services. Numerous statutes and regulations, each intended to promote valid objectives, had resulted over time in a complex system that burdened both contracting officials and prospective vendors. In enacting FASA, the Congress sought to ease that burden and to provide the tools for improving the process.

FASA established a simplified acquisition threshold of $100,000, and provided for significant simplification of procurements at or below that amount. It encouraged the acquisition of commercial items by exempting such purchases from a number of requirements. The act also provided for the development of a Federal Acquisition Computer Network that, if implementation problems are addressed, would facilitate the procurement of goods and services electronically.[3] The Clinger-Cohen Act provided for further simplification of the procurement process, particularly for commercial items.

In addition, Title V of FASA requires federal agencies to establish cost, schedule, and performance goals for acquisition programs and report annually on the progress in meeting those goals. The Department of Defense is required to report on progress in reducing the time for incorporating new technology into weapon systems. Title V also requires the development of results-oriented acquisition process guidelines.

[3]Acquisition Reform: Obstacles to Implementing the Federal Acquisition Computer Network (GAO/NSIAD-97-26, January 3, 1997).

Congressional Oversight Is Key

Continued annual oversight by appropriate congressional committees will be important to ensure that agencies effectively implement these laws and achieve their goals, which can result in better

- data to help make spending decisions,
- assessments of the performance and cost of federal activities and operations,
- management of the federal government's enormous investment in information technology, and
- federal procurement processes.

Key Contacts for Newly Designated High-Risk Areas

Defense Infrastructure	David R. Warren, Director Defense Management Issues National Security and International Affairs Division (202) 512-8412
Information Security	Jack L. Brock, Director Information Resources Management Accounting and Information Management Division (202) 512-6240
The Year 2000 Problem	William S. Franklin, Director Information Resources Management Accounting and Information Management Division (202) 512-6499 Joel C. Willemssen, Director Information Resources Management Accounting and Information Management Division (202) 512-6408

Supplemental Security Income	Jane L. Ross, Director Income Security Issues Health, Education and Human Services Division (202) 512-7215
2000 Decennial Census	Bernard L. Ungar, Associate Director Federal Management and Workforce Issues General Government Division (202) 512-4232

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